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FM AMEMBASSY PRETORIA

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INFO AMCONSUL CAPE TOWN BY POUCH

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CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: ECON, WA

SUBJECT: NAMIBIA: ECONOMIC PROSPECTS

1. SUMMARY: WHILE NAMIBIA IS SUFFERING FROM SAME RECESSION AS SOUTH AFRICA, ITS ECONOMY CONTINUED TO GROW IN 1976 OWING IN PART TO HIGH RATE OF ACTIVITY IN GOVERNMENT SECTOR. POLITICAL UNCERTAINTY IS ALSO FACTOR IN BUSINESS SLOWDOWN AND ABSENCE OF PRIVATE INVESTMENT. RESIDENTS HAVE BEEN MOVING CAPITAL OUT OF COUNTRY BECAUSE OF FEAR ASSETS WILL BE FROZEN.

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MINING, WHICH ACCOUNTS FOR 40 PERCENT OF NAMIBIA'S GDP HAS BEEN IN DOLDRUMS BUT COUNTRY IS ON THRESHOLD OF A URANIUM BOOM. WATER SHORTAGE COULD BECOME CRITICAL DURING DECADE OF 1980'S. ANGOLA HAS BLOCKED FURTHER WORK ON CALUEQUE DAM BRINGING COMPLETION OF RUACANA POWER SCHEME INTO DOUBT.

AGRICULTURE, ROUGHLY DIVIDED BETWEEN BEEF CATTLE AND KARAKUL,

CANNOT EXPAND GREATLY BECAUSE OF LIMITS ON GRAZING AND WATER. FISHERIES HAVE GROWTH POSSIBILITIES IF CAPITAL FOR MODERNIZATION CAN BE FOUND.

CONTRACT LABOR SYSTEM CONTINUES TO BE IMPOSED ON BLACK WORKERS BUT THERE IS DEFINITE MOVE TO CITIES WHICH COULD BE ACCENTUATED WITH INDEPENDENCE.

IT IS EXPECTED THAT SOUTH AFRICA WILL CONTINUE TO SUBSIDIZE NAMIBIAN ECONOMY THROUGH DIRECT BUDGET GRANTS, THROUGH OPERATION OF RAILWAYS AND OTHER INFRASTRUCTURE AND SERVICING OF DEBTS FROM PUBLIC PROJECTS.

FURTHER EMBASSY REPORTS WILL FOLLOW. END SUMMARY.

2. INTRODUCTION: AN EMBASSY OFFICER RECENTLY PAID A BRIEF VISIT TO NAMIBIA (SOUTH WEST AFRICA) TO ASSESS STATE OF ECONOMY, GROWTH PROSPECTS, PROBLEMS TO BE FACED BY SEPARATION FROM SOUTH AFRICA AND BUSINESS ATTITUDES. SOME IMPRESSIONS WERE ALSO GAINED OF LABOR SCENE ALTHOUGH DIRECT CONTACTS WITH BLACKS WERE LIMITED.

3. OUTPUT AND GROWTH: ABSENCE OF SEPARATE ECONOMIC DATA, IMPORT-EXPORT STATISTICS, ETC., FOR NAMIBIA DETERS EVEN LOCAL BANKERS AND OTHERS WELL ACQUAINTED WITH BUSINESS SCENE FROM RENDERING FIRM JUDGMENTS ABOUT STATE OF ECONOMY AND ITS POTENTIAL AS AN INDEPENDENT STATE. ONE OFFICIAL GAVE GDP AS R650 MILLION (1 RAND - \$1.15) IN 1976 AND ANOTHER SAID GROWTH RATE WAS 5.6 PERCENT. GDP IS BELIEVED TO BE ABOUT 30 PERCENT LIMITED OFFICIAL USE

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ABOVE GNP BECAUSE OF HIGH SHARE OF NATIONAL INCOME ACCRUING TO INVESTORS DOMICILED OUTSIDE NAMIBIA.

4. NAMIBIA APPARENTLY ENJOYED HIGHER GROWTH RATE IN 1976 THAN SOUTH AFRICA, POSSIBLY EXPLAINED BY FACT THAT GOVERNMENT SPENDING IS BIGGER FACTOR AND DID NOT FALL OFF AS MUCH DURING CURRENT RECESSION. ALSO KARAKUL PRICES WERE AT PEAK LEVELS. WITH KARAKUL PRICES NOW TAPERING OFF AND FISHERIES PROSPECTS POORER, 1977 GROWTH RATE EXPECTED TO BE LOWER.

5. BUSINESS ACTIVITY: BANKS REPORT INVENTORIES HAVE BEEN TRIMMED AND CREDIT DEMAND IS WEAK. FIRMS ARE CONSTANTLY PRODDING TO GET ACCOUNTS PAID. LOCAL PUBLISHER HARD PUT TO SELL ADVERTISING. PRIVATE BUILDING IS NEARLY NON-EXISTENT. DIRECTOR OF BUILDING SOCIETY SAID, WHEREAS NEW HOUSES USUALLY ACCOUNTED FOR 50 PERCENT OF MORTGAGES, THIS NOW DOWN TO 5 PERCENT. PRICES OF HOMES ABOVE R25,000 ARE OFF BY A THIRD. GOVERNMENT CONSTRUCTION--R24 MILLION HOSPITAL IN OVAMBO, R40-50 MILLION FOR MILITARY INSTALLATIONS AT GROOTFONTEIN, BLACK AND COLORED

SCHOOLS--CONTINUES AT HIGH LEVEL.

6. CAPITAL OUTFLOW: SEVERAL SOURCES CONCEDE THERE HAS BEEN SUBSTANTIAL OUTFLOW OF CAPITAL TO SOUTH AFRICA. MANY FARMERS AND OTHERS HAVE BEEN BUYING PROPERTY, SOME INVESTING IN SA SHARES, AND MANY SIMPLY PLACING DEPOSITS IN POST OFFICE ACCOUNTS WHICH CAN BE WITHDRAWN IN SA. MANY POSTWAR IMMIGRANTS FROM GERMANY WITH NEEDED SKILLS HAVE BEEN RETURNING, NOT SO MUCH OUT OF CONCERNS OVER IMMEDIATE FUTURE BUT IN ORDER TO GET ACCUMULATED SAVINGS OUT OF COUNTRY. ONE LOCAL BANK CLAIMED TRANSFER OF CAPITAL WAS AT PEAK YEAR AGO WITH CONFIDENCE RETURNING AS A RESULT OF TURNHALLE. OTHERS SAY HOWEVER MOVEMENT CONTINUES BECAUSE OF FEAR ASSETS WILL BE FROZEN. SENIOR BANKER FROM SA SAID ONLY INVESTMENTS HE COULD RECOMMEND WERE KRUGERRANDS AND DIAMONDS.

7. GOVERNMENT FINANCES: A FINANCIAL COMMITTEE UNDER DEPUTY LIMITED OFFICIAL USE

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PRESIDENT J.C. DU PLESSIS OF SA RESERVE BANK IS PREPARING ANALYSIS AND RECOMMENDATIONS TO TURNHALLE ON FINANCIAL RELATIONS BETWEEN SA AND NAMIBIA. SEPARATE NAMIBIAN ACCOUNTS ARE MAINTAINED OF REVENUE AND EXPENDITURES SHOWING A DEFICIT OF ABOUT R60 MILLION IN FY-1976-77 AND R38 MILLION IN SA BUDGET JUST ANNOUNCED, WHICH CAN BE REGARDED AS SA SUBSIDY TO NAMIBIA. HOWEVER, THERE ARE NUMEROUS OTHER SERVICES AND OPERATIONS IN SA BUDGET NOT BROKEN OUT FOR NAMIBIA (E.G. BANTU AFFAIRS, FISHERIES RESEARCH) PLUS HEAVY RAILWAYS DEFICIT IN NAMIBIA AND POSTAL AND RADIO SERVICES. QUESTION OF HANDLING DEBT SERVICE FOR WATER AND POWER PROJECTS HAS TO BE RESOLVED. IT IS CLEAR THAT NAMIBIA EXPECTS SUPPORT FROM SA TO CONTINUE. MEMBER OF NAMIBIAN EXECUTIVE COUNCIL, DIRK MUDGE, SAID, "ECONOMIC ASSISTANCE IS PRICE OF RELIEVING SOUTH AFRICA OF POLITICAL BURDEN."

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8. PERSONAL INCOME TAX IS 6-10 PERCENT LOWER IN NAMIBIA THAN SA AND PEAKS AT 58 PERCENT INSTEAD OF 72 PERCENT. COMPANY TAX IS 35 PERCENT VERSUS 40 PERCENT IN SA. BLACKS ARE NOT TAXED. IT IS WIDELY EXPECTED THAT THESE RATES WILL BE RAISED AND TAXES IMPOSED ON ALL RACES EQUALLY. INCENTIVES TO INVEST AND LIVE IN NAMIBIA WILL BE CORRESPONDINGLY REDUCED.

9. GOVERNMENT OFFICIALS: ABOUT HALF OF AFRIKANERS IN NAMIBIA ARE SAID TO BE GOVERNMENT EMPLOYEES. ALTHOUGH MUDGE AND OTHERS DEPLORE EXCESSIVE SIZE OF BUREAUCRACY (AND THESE EMPLOYEES DO NOT GIVE IMPRESSION OF BEING BEST SA HAD TO OFFER), THERE IS LITTLE LIKELIHOOD OF MUCH REDUCTION. LIMITED OFFICIAL USE

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SOME SA AGENCIES WILL DISAPPEAR WITHOUT REGRET BUT WITH ELEVEN REGIONAL GOVERNMENTS ADMINISTRATIVE OVERHEAD SEEMS CERTAIN TO GROW. MUDGE HOPES MOST SECOND TIER GOVERNMENTS WILL NOT INSIST ON THEIR RIGHT TO SET UP SEPARATE AGENCIES BUT WILL LEAVE MANY RESPONSIBILITIES TO CENTRAL GOVERNMENT.

10. NON-WHITE LABOR: IN THEORY, LABOR POLICY IN NAMIBIA WILL BE MUCH MORE LIBERAL THAN SA. THERE IS NO OFFICIAL JOB RESERVATION, NO RESTRICTIONS ON APPRENTICESHIPS BY COLOREDS AND BLACKS, EQUAL PAY FOR EQUAL WORK AND A TURNHALLE RESOLUTION TO RAISE MINIMUM WAGES BY 20 PERCENT. IN FACT, CONTRACT LABOR SYSTEM IS MORE ENTRENCHED THAN IN SA, INFLUX CONTROLS ARE MAINTAINED AND HOMELANDS FAMILIES ARE NOT ALLOWED TO JOIN WORKERS IN URBAN AREAS. NOT ONLY MINES BUT EVEN BIG URBAN EMPLOYERS LIKE BARLOW (DISTRIBUTORS FOR GM,

CATERPILLAR, BUILDING SUPPLIES, ETC.) HIRE WORKERS ON CONTRACT BASIS WHO ARE ASSIGNED TO HOSTEL BEDS EARMARKED FOR FIRM.

11. OVAMBOS ARE PREFERRED OVER OTHER ETHNIC GROUPS BUT EVEN THESE ARE MUCH LESS PRODUCTIVE THAN BLACK WORKERS IN SA, OWING TO LATTER'S HIGHER EDUCATIONAL LEVEL AND EXPOSURE TO INDUSTRIAL SOCIETY. AVERAGE STAY IN MINES IS EIGHT MONTHS WHICH FURTHER REDUCES EFFICIENCY. THERE IS DEFINITE UNEMPLOYMENT PROBLEM. DE BEERS, THE PREFERRED EMPLOYER, SAYS 400 OPENINGS ATTRACT, 3,000 APPLICANTS. DESPITE INFILTRATION CONTROLS, JOBLESS BLACKS ARE PREVALENT IN WINDHOEK GIVING RISE TO INCIPIENT PROBLEMS SUCH AS HOUSEBREAKING.

12. COLORED ARE IN BETTER POSITION. THEY DOMINATE BUILDING TRADES, CAN WORK AT SUCH JOBS AS BRICKLAYERS AND ELECTRICIANS AND ACT AS SUBCONTRACTORS TO LARGE WHITE BUILDING FIRMS. THEY ARE NOW BEING TAKEN ON AS OFFICE SECRETARIES AND BANK CLERKS (BUT NOT TELLERS), OVERSEERS OF BLACKS ON RAILWAYS AND ROAD WORK, MECHANICS, ETC.

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13. MINING. THREE BIG OPERATIONS ARE THE US CONTROLLED TSUMEB IN THE NORTH (COPPER, LEAD, ZINC), RIO TINTO'S ROSSING URANIUM NEAR SWAKOPMUND ON COAST, AND SA-OWNED DE BEERS DIAMONDS ON SOUTH COAST AT ORANJEMUND.

14. TOTAL VALUE OF NAMIBIA MINES LAST YEAR WAS GIVEN AS R 232 MILLION OR 40 PERCENT OF GDP. HEAD OF CHAMBER OF MINES IS EBULLIENT ABOUT PROSPECTS, BOASTING OF LIBERAL SWA RULES ON EXPLORATION AND CLAIMS, TAX CONCESSIONS, AND LARGE NUMBER OF COMPANIES EITHER EXPLORING OR CONTEMPLATING MAJOR INVESTMENTS. CHAMBER HEAD CLAIMS THAT, LEAVING ENORMOUS ROSSING PROJECT ASIDE, URANIUM ORE VALUED AT R400-600 MILLION IS TO BE BROUGHT INTO PRODUCTION, ANOTHER R1900 MILLION HAS BEEN DISCOVERED AND R6000 MILLION CAN BE PROJECTED.

15. OFFICIALS OF THE BIG MINES ARE GUARDED IN DISCUSSING THEIR OWN PROSPECTS. DE BEERS, FREQUENTLY RUMORED TO BE COMING NEAR ITS END, ADMITS IT CAN NOW FORESEE ANOTHER 20-25 YEARS OF OPERATION. WHILE VALUE OF ITS DIAMOND PRODUCTION IS CLOSELY HELD, IT RECOVERED 1.7 MILLION CARATS IN 1975 AVERAGING NEARLY 90 PERCENT GEMSTONES. ROSSING OPENING SCHEDULED FOR LATE 1976 HAS BEEN DELAYED 18 MONTHS BY TECHNICAL HITCHES. IT WILL ULTIMATELY BE AMONG LARGEST PRODUCERS IN WORLD AT 5,000 TONS OF URANIUM OXIDE ANNUALLY WITH FORWARD CONTRACTS AVERAGING \$14/LB. ROSSING WILL NOT BECOME A MAJOR TAXPAYER UNTIL EARLY 1980 SINCE ALL

CAPITAL EXPENDITURE CAN BE WRITTEN OFF FIRST.

16. TSUMEB'S MAIN MINE IS PRODUCING AT HALF ITS ORIGINAL ORE CONTENT OF 30 PERCENT BUT IT IS DEVELOPING A NEW ORE BODY AT COMBAT MINE WITH 38 PERCENT CONTENT. ITS SMELTER IS PRODUCING BLISTER COPPER AND LEAD FOR OTHER MINES IN NAMIBIA AND AS FAR AWAY AS AUSTRALIA. TSUMEB IS SPENDING R80-90,000 A MONTH IN EXPLORATION BUT CLAIMS ANGLO-AMERICAN IS SPENDING MORE. TSUMEB SALES WERE LIMITED OFFICIAL USE

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\$51.5 MILLION IN 1976 AND \$75 MILLION IN 1975. REDUCTION IS DUE TO CLOSING OF COMBAT MINE AS RESULT OF LOW COPPER PRICES. LOSSES WERE OVER \$2 MILLION IN BOTH YEARS AND NO REVIVAL SEEN BEFORE 1978.

17. ALTHOUGH GENERAL MINING AND OTHER SA COMPANIES HOLD URANIUM AND OTHER MINING RIGHTS, THEY ARE SHORT OF CAPITAL AND CAN BE EXPECTED TO END UP AS MINORITY SHAREHOLDERS IN FUTURE VENTURES. EVERYONE CONNECTED WITH MINING INDUSTRY AND POLITICAL FIGURES AS WELL STRESS NEED TO MAINTAIN POLICIES ATTRACTIVE TO INVESTORS. WHILE MINING IS REGARDED AS KEY TO ECONOMIC GROWTH, THEY REJECT SUGGESTION THAT NEW EXTRACTION LEVIES COULD BE IMPOSED TO FINANCE NAMIBIAN GOVERNMENT. RESERVOIR OF CHEAP BLACK LABOR IN HOMELANDS IS ALSO SEEN AS ESSENTIAL RESOURCE FOR PROFITABLE FUTURE OF MINING. ALL OIL PROSPECTING HAS BEEN SUSPENDED.

18. WATER AND POWER SHORTAGE: HEAD OF WATER DEPARTMENT SAYS NAMIBIA WILL RUN OUT OF WATER IN MID-1990'S, BUT SITUATION VERY MUCH WORSE IN INDIVIDUAL REGIONS. IN WINDHOEK AND WEST COAST CRITICAL DATES ARE 1982-3, FOR MINING DATE IS 1986. THIS BASED ON ESTIMATE OF INCREASED USAGE OF 3-3.5 PERCENT ANNUALLY, WHICH IS CONSERVATIVE (SA EQUALS 7-8 PERCENT). POLITICAL FACTORS PREVENT PLANNING ON USE OF KUNENE AND KAVANGO RIVERS ON NORTHERN BORDER. SUCH PROJECT, INCLUDING PIPELINES, WOULD IN ANY EVENT COST A BILLION RAND OVER 10 YEARS. AT PRESENT BEST HOPE LIES IN DESALINATION PLANTS AND SHARP INCREASE IN FEES CHARGED FOR WATER.

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19. RAUCANA POWER PLANT ON KUNENE RIVER COULD BE FULLY ON STREAM AT END OF 1977 BUT ANGOLANS HAVE BLOCKED COMPLETION OF CALUEQUE DAM ON THEIR SIDE OF BORDER. POWER CAN STILL BE PRODUCED WITH LOWER HEAD IF ANGOLANS DO NOT INTERFERE WITH OPERATION OF SLUICE GATES. OLD AND INEFFICIENT COAL POWER STATIONS ARE SUPPOSED TO BE TAKEN OUT OF COMMISSION WHEN RUACANA BEGINS OPERATION. IF THIS DOES NOT OCCUR, WOULD TAKE 2-3 YEARS TO RECOUP BY INSTALLING GENERATORS POWERED BY IMPORTED COAL, WITH CONSEQUENT SLOWDOWN IN GROWTH OF CITIES AND MINING.

20. FARMING: AGRICULTURE WHICH ACCOUNTS FOR 17 PERCENT OF GDP IS LARGELY CONFINED TO BEEF CATTLE AND KARAKUL SHEEP. THERE LIMITED OFFICIAL USE

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ARE 1.8 MILLION HEAD OF CATTLE IN EUROPEAN AREAS WHICH IS ABOUT MAXIMUM ALTHOUGH QUALITY IMPROVEMENTS ARE POSSIBLE. NINETY PERCENT ARE EXPORTED ON HOOF TO SA, THE REST AS FROZEN MEAT. NAMIBIANS WOULD LIKE TO EXPORT CARCASSES AT MUCH HIGHER PRICES DIRECT TO EEC BUT RECOGNIZE THERE IS NO CHANCE OF THIS FOR PRESENT. HOMELANDS CONTAIN 700,000 HEAD AND COULD SUPPORT 2.2 MILLION. THESE ARE OF POOR QUALITY AND ONLY marginally PART OF ECONOMY.

21. AT PEAK PRICES FOR SKINS, KARAKUL OUTPUT WAS NEAR R60

MILLION IN 1976 BUT WILL BE LOWER IN 1977. ANY FUTURE INCREASE IN THIS WILL HAVE TO COME FROM MORE SCIENTIFIC FARMING AND FURTHER UPGRADING OF PELT GRADES WHICH ALREADY OBTAIN TOP PRICES AT LONDON AUCTIONS.

22. FISHERIES: KEY PRODUCT IS PILCHARD (SARDINES) TINNED AT WALVIS BAY AND SOLD WIDELY AS ONE OF CHEAPEST PROTEIN SOURCES IN BLACK AFRICA. SALES DOWN RECENTLY DUE TO CONSERVATION MEASURES. IN VIEW OF AN OPTIMISTIC SPECIALIST ON NAMIBIAN FISHERIES, POTENTIAL FOR GROWTH IS TREMENDOUS IF (A) CAPITAL COULD BE FOUND TO MODERNIZE BOATS TO CHILL CATCHES, AND (B) NAMIBIA ADOPTED AND COULD ENFORCE 200- MILE LIMIT, EXCLUDING UP TO 80-90 FOREIGN TRAWLERS NOW OFF COASTS. OF FURTHER ADVANTAGE WOULD BE SALE OF FISH MEAL AT WORLD PRICES REPLACING PRESENT SYSTEM WHERE PROTEIN MUST BE EXPORTED TO SA AT MUCH LOWER CONTROLLED PRICE.

23. INDUSTRY: MANUFACTURING IS AT A RUDIMENTARY STAGE. THERE ARE THREE ABBATOIRS, A PAINT PLANT, PACKAGING PLANT, PLANT PRODUCING TIN CANS FOR FISH, A GERMAN CHOCOLATE FACTORY.

BIGGEST EMPLOYERS OUTSIDE PRIMARY INDUSTRY AND GOVERNMENT ARE DISTRIBUTORS LIKE TOMAS BARLOW AND METJE AND ZIEGLER. BUSINESSMEN SPEAK HOPEFULLY OF CEMENT PLANT, KARAKUL TANNERY, MEAT PROCESSING, ETC., BUT ON CLOSER STUDY NONE OF THESE LOOKS PROMISING.

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24. CONCLUSIONS: TURNHALLE LEADERS AND MOST WHITE BUSINESSMEN ARE GRATIFIED AND RELIEVED OVER POSITIVE OUTCOME OF CONSTITUTIONAL TALKS BUT RECOGNIZE THAT FRAGILITY OF TURNHALLE AND LACK OF INTERNATIONAL ACCEPTANCE DO NOT HELP BUILD CONFIDENCE OF POTENTIAL INVESTORS. EXCEPT FOR URANIUM, ACTIVITY IN MINING SECTOR SEEMS CONFINED TO EXPLORING AND LINING UP CONCESSIONS PENDING REVIVAL OF MINERAL PRICES.

25. LIMITED WATER AND, TO A LESSER DEGREE POWER, COULD BE BRAKE ON ALL FORMS OF DEVELOPEMENT. ONLY MINING AND PERHAPS FISHERIES SEEM TO OFFER PROMISE OF MAJOR EXPANSION AND NEITHER OF THESE CAN ABSORB SIGNIFICANT ADDED NUMBERS OF BLACK WORKERS. WHILE CONTRACT LABOR IS DEEPLY EMBEDDED, THERE ARE LAREADY SIGNS THAT SHIFT OF BLACKS TO CITIES IS UNDERWAY. UNDER MULTIRACIAL GOVERNMENT IT WILL BE EVEN HARDER

TO EFFECTIVELY CONTROL MOVEMENT OF WORKERS AND THEIR FAMILIES. WATER RESOURCES ARE ALSO A FACTOR HERE. IF CURRENTLY PLANNED PROJECTS IN NORTH ARE SUCCESSFUL, COULD SLOW OUTWARD MIGRATION OF OVAMBOS AND KAVANGOS.

26. SOUTH AFRICA HAS LEFT IMPORTANT LEGACY OF ROAD AND RAIL LINES. THESE ARE COSTLY TO MAINTAIN, HOWEVER, AND RAILROAD MUST BE HEAVILY SUBSIDIZED. BECAUSE OF THIS NORTH-SOUTH INFRASTRUCTURE AND OTHER REASONS, NOT LEAST OF WHICH IS MILITARY PRESENCE, SOUTH AFRICA IS EXPECTED TO RETAIN DOMINANT ECONOMIC ROLE AND IS EXPECTED TO CONTRIBUTE HEAVILY TO BUDGET. IN RETURN OF COURSE, SOUTH AFRICA ENJOYS PROFITS FROM ITS INVESTMENTS AND PROTECTED MARKET. MUCH OF SUBSIDY WILL IN FACT PAY SALARIES OF SAG CITIZENS NOW EMPLOYED BY NAMIBIA.

27. NEXT FEW MONTHS SHOULD BE CRITICAL PERIOD FOR EVOLUTION OF SA-NAMIBIAN FINANCIAL AND ECONOMIC RELATIONS. EMBASSY WILL FOLLOW AND REPORT THESE TO EXTENT FEASIBLE. IN ADDITION,
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